

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 2409 - HB 2467**

April 6, 2018

**SUMMARY OF BILL:** Phases out the state sales and use tax on the retail sales of food and food ingredients, by reducing the tax rate by one percent each year, beginning on July 1, 2018, until the tax is fully eliminated beginning on July 1, 2021.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$112,493,600/FY18-19**  
**\$224,987,400/FY19-20**  
**\$337,480,900/FY20-21**  
**\$452,688,400/FY21-22 and Subsequent Years**

**Decrease Local Revenue – \$5,427,900/FY18-19**  
**\$10,855,600/FY19-20**  
**\$16,283,700/FY20-21**  
**\$18,997,600/FY21-22 and Subsequent Years**

Assumptions:

- Public Chapter 181 of 2017 (the IMPROVE Act) reduced the sales and use tax rate imposed on the retail sales of food and food ingredients, pursuant to Tenn. Code Ann. § 67-6-228(a), from five to four percent beginning on July 1, 2017.
- Total sales tax collections derived from the retail sales of food and food ingredients in FY16-17 were equal to \$574,228,013. Assuming an annual growth rate of 3.80 percent and adjusting for the tax rate decrease, total sales tax collections in FY18-19 are estimated to be \$471,686,031 under current law.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this legislation. The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0276 percent under current law.
- Therefore, local revenue pursuant to the state-shared allocation in FY18-19 is estimated to be \$18,997,627 ( $\$471,686,031 \times 4.0276\%$ ); net state revenue is estimated to be \$452,688,404 ( $\$471,686,031 - \$18,997,627$ ).
- State and local sales tax revenue generally increase over the years due to multiple economic factors, including, but not limited to, inflationary factors, increases in population and increases in disposable income. For the purposes of this fiscal analysis and due to the fact that tax rate changes are occurring over multiple years, it is assumed that the abovementioned numbers for state and local sales tax collections would remain

constant, rather than increase, in subsequent years under current law. However, no adjustments are made for any offsetting impacts of tax revenue losses resulting from this bill from tax savings that would be spent in the economy on non-food sales-taxable goods and services.

- Calculations used in this fiscal note for state and local sales tax collections after the effective date of this legislation have been omitted for the purpose of brevity. However, these calculations are on file with the Fiscal Review Committee staff and can be provided upon request.
- The proposed legislation is estimated to result in the following decreases in state and local revenue:
  - FY18-19: \$112,493,580 state; \$5,427,927 local;
  - FY19-20: \$224,987,397 state; \$10,855,619 local;
  - FY20-21: \$337,480,860 state; \$16,283,663 local; and
  - FY21-22 and subsequent years: \$452,688,404 state; \$18,997,627 local.

### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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